Are investments of milk companies likely to promote socially sustainable business in developing countries?

Lessons learnt from West Africa and South-East Asia

Guillaume DUTEUTRE and Christian CORNIAUX
Context

*International firms as opportunities or threats?*
The competition of dairy exports

• La libéralisation va « hypothéquer l’avenir du secteur du lait, qui fait vivre des millions d’éleveurs dans la région ouest-africaine, en permettant l’importation de poudre de lait européenne, largement subventionnée » (Media-part, 2016)
Milk surplus and deficit per country

Source: IFCN, 2016
Informal markets facing new quality standards

<table>
<thead>
<tr>
<th></th>
<th>Total milk production (2009)</th>
<th>Percentage of the milk market handled by informal chains</th>
<th>Number of cows per farm</th>
<th>Rural jobs per million liters of milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed World (mainly North)</td>
<td>362 million t</td>
<td>&lt; 10%</td>
<td>US, Australia, New-Zeland &gt; 100</td>
<td>5</td>
</tr>
<tr>
<td>Developing world (mainly south)</td>
<td>337 million t</td>
<td>80%</td>
<td>India &lt;10, Kenya &lt; 10, Brazil &lt; 30</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Grain, 2011
The new Mega Farms

- Importance of Farms of more than 1000 cows in the total production

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>2006</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>14%</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td>1%</td>
<td>21%</td>
</tr>
</tbody>
</table>
The competition of International firms

• “Most dairy markets are supplied by small-scale vendors who collect milk from small farmers and pastoralists. But they are under threat from dairy corporations” (Grain, 2011)

Source: Grain, 2011
Towards inclusive dairy value chains

Source: IFCN, 2016
Towards inclusive dairy value chain

Source: IFCN, 2016
Are investments of milk companies likely to promote socially sustainable business in developing countries?

What are the **firms strategy** related to local milk sourcing?

What is the **social footprint** of milk collection and processing?

- « Social business »?
- « Non-social » business?
- Social impact of sustainable business
- Farmers’ employment and income
- Community and value-chain development
Part 2

West-African Dairy industry

The question of the « inclusion » of agro-pastoralists
The « milk paradoxe » in West Africa

D’après Duteurtre et al (2013)
Strategies of Dairy Industries in West Africa

- Sodial / Tiviski
- Lactalis / MaliLait
- Sodial / EuroLait
- Belgomilk / Disnepal
- Nestlé (Nido, poudre)
- Solani
- Friesland Campina / Wamco Nigeria
- Glanbia / Sicoma
- Glanbia / PZ Cussons
- Arla / Tolaram Group
- Danone / LDB
- Glanbia / Satrec
- Nestlé / Mata Holdings
- Sodial / Eurolait
- Nestlé / Abraaj
- Arla / Abraaj
- Danone / LDB
- Glanbia / Sicoma

Social footprint

• Number of jobs (5 Sahelian countries)
  – Total volume collected by industries:
    • 30 to 45,000 liters/day (monthly income for 5,000 families)
  – Total volume collected by mini-dairies:
    • 15 to 25,000 liters/day (monthly income for 5,000 families)

• Rural community development
  – 1200 employments in processing
    + collectors, retailers, input providers...

• Value chain upgrading
  – Investments in collection systems
  – New products
  – New production practices (intensification)

Source: Corniaux et al., 2014; Gret, 2015
Part 3

South-East Asian Dairy industry

Dairying as a new business for smallholder farmers
Country profiles: Emerging dairy producers

Cow milk Production in selected countries
(in million tonnes)

Source: Faostat
# Strategies of Dairy Companies in South-East Asia

Firms collecting fresh milk in East Asia in 2014-2015

<table>
<thead>
<tr>
<th>Firms</th>
<th>Country</th>
<th>Milk collection (l/day)</th>
<th>Specific processing lines</th>
<th>N° of family farms</th>
<th>N° of large scale farms</th>
<th>CSR program</th>
</tr>
</thead>
<tbody>
<tr>
<td>TH Milk</td>
<td>Vietnam</td>
<td>60 000</td>
<td>TH “True Milk” UHT Milk</td>
<td>-</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>International Dairy Production (IDP)</td>
<td>Vietnam</td>
<td>30 000</td>
<td>Local “Bavi” UHT milk</td>
<td>1 500</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>Vinamilk</td>
<td>Vietnam</td>
<td>500 000</td>
<td>“100% fresh milk” UTH milk</td>
<td>15 000</td>
<td>5</td>
<td>Yes</td>
</tr>
<tr>
<td>Danone Dairy Indonesia (DDI)</td>
<td>Indonesia</td>
<td>60 000</td>
<td>Lactic acid beverages</td>
<td>2 000</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>Danone Sari Husada</td>
<td>Indonesia</td>
<td>1 500</td>
<td>-</td>
<td>50</td>
<td>-</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Family Farm in Ba Vi**
3 cows, milking machine

**Industrial Farm in Ba Vi**
185 cows, milking parlor
Social impact of Dairy companies

• Number of jobs
  – Family farms
  – Jobs in Industrial farming

• Value chain upgrading
  – Milk farms market participation (quality, payement...)
  – Input / output market

• Rural community development
  – Education (CSR)
  – Empowerment of local communities
Part 4

Conclusion

*Underlying complementarities*
Local milk as a business strategy

• To reach specific market segments
• To limit cost volatility
• To build long terms strategy
  – Participation to Local development
  – Reputation and human rights issues (RSE)
• In coherence with local policies
  – Local Regulation with incitation to local milk collection
  – With diversity of State involvement in dairy development policies

Inclusive business model 1:
= industries that develop their local sourcing
CSR programs: pros and cons

- Importance of credit, training and community support programs
- Limitations of “disconnected programs”

Beyond CSR programs:

The need for sustainable development strategies of international and national firms
• GRAIN, 2011: “The Great Milk Robbery: How corporations are stealing livelihoods and a vital source of nutrition from the poor”
• IFCN, 2016: ”Global dairy trends, drivers & outlook : Results of the IFCN Dairy Report 2016”